A L T E R N A T I V E   I N V E S T I N G

A Historical Perspective on Time-Varying Expected Returns

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Investors naturally think about the expected returns of bonds based on their market yields, thus assuming time-varying expected returns. Yet when it comes to equities, investors and academics have traditionally assumed constant expected returns and have estimated prospective returns based on long-run historical realized returns. Since the turn of the millennium, however, expected equity market returns have been increasingly seen as time varying. But can investors capture this predictability over time using realtime indicators? If the answer is yes, it seems natural to engage in market timing. As this chapter shows, however, market timing is not easy.

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